VS Industry (VSI MK)

3QFY26: Below Expectations; Cyclical Headwinds Persist, But Downside Pricing In

BUY (Maintained)

Share Price	RM0.195
Target Price	RM0.340
Upside	+74.4%
Previous TP	RM0.430

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Highlights

- Near-term outlook remains murky amid weaker white goods demand; however, decade-low valuations offer rebound optionality on any positive surprise. we recalibrate our FY26/27 earnings forecasts to RM5m/101m respectively to reflect softer loadings and prolonged gestation.
- VS trades at 7.5x FY27F PE (-1SD) and 0.3x FY27F P/BV (-2SD), below even MCO trough levels (0.83-0.88x), suggesting limited downside with asymmetrical upside potential.
- Despite longer gestation, valuations are compelling; target price: RM0.34. Potential catalysts will stem from order normalisation, utilisation recovery, and new customer wins. Maintain BUY.

3QFY26 Results

Year to 31 Jul (RMm)	3QFY26	qoq % chg	yoy % chg	9MFY26	yoy % chg
Sales	804.0	4.5	(11.6)	2,652.1	(9.5)
EBIT	(34.2)	N.A.	N.A.	(9.8)	N.A.
PBT	(35.4)	N.A.	N.A.	(14.6)	N.A.
Net Profit	(32.9)	N.A.	N.A.	(31.9)	N.A.
Core net profit	(32.9)	N.A.	N.A.	(38.0)	N.A.
Sales					
Malaysia	534.2	(24.3)	(25.3)	2,241.1	(0.6)
Indonesia	62.1	(3.3)	6.2	207.7	(12.8)
PBT					
Malaysia	(29.1)	N.A.	N.A.	18.2	(83.5)
Indonesia	(1.1)	N.A.	N.A.	0.5	N.A.

Source: VS, UOB Kay Hian

Analysis

- **Below expectations.** VS Industry (VS) reported 3QFY26 core loss of RM32.9m (2QFY26: -RM29.6m; 3QFY25: RM15.4m). This brings 9MFY26 core net loss to RM38m, which falls below expectations. The negative deviation was mainly attributable to lower-than-expected loadings, which resulted in operating deleverage.
- **9MFY26 revenue dropped 10%** on weaker loadings from key customers. A core net loss of RM38m was recorded, dragged by higher operational losses from both Malaysia and the Philippines alongside cost-down initiatives from key customers.

Key Financials

Year to 31 Jul (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	4,248	3,788	3,235	3,720	4,227
EBITDA	413	223	157	286	321
Operating profit	287	96	27	157	188
Net profit (rep./act.)	246	37	5	102	125
Net profit (adj.)	210	51	5	102	125
EPS	5.3	1.3	0.1	2.6	3.2
PE	3.7	15.0	195.0	7.5	6.1
P/B	0.3	0.4	0.4	0.3	0.3
EV/EBITDA	1.6	3.0	4.3	2.3	2.1
Dividend yield	9.7	4.1	0.0	4.1	4.6
Net margin	5.8	1.0	0.2	2.7	3.0
Net debt/(cash) to equity	6.7	(3.3)	(3.8)	(0.2)	2.2
Interest cover	22.5	11.4	6.7	12.2	13.7
ROE	5.5	1.7	0.2	4.6	5.5
Consensus net profit	-	-	35	78	118
UOBKH/Consensus (x)	-	-	0.14	1.30	1.06

Source: VS, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Information Technology
Bloomberg ticker	VSI MK
Shares issued (m)	3,854.5
Market cap (RMm)	751.6
Market cap (US$m)	181.7
3-mth avg daily t'over (US$m)	3.1

Price Performance (%)

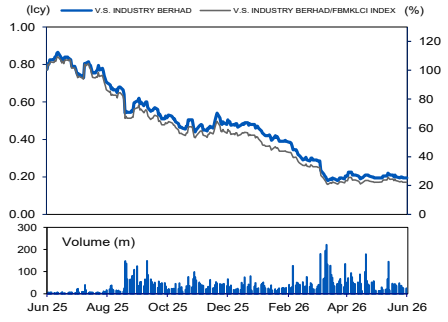
52-week high/low: RM0.87/RM0.17

1mth	3mth	6mth	1yr	YTD
(2.5)	(32.8)	(59.4)	(74.8)	(59.8)

Major Shareholders

	%
Beh Hwee Sze	7.4
Beh Hwee Lee	7.4
Aberdeen	6.8

Price Chart



Source: Bloomberg

Company Description

VS Industry is involved in the manufacturing of plastic parts and components, contract manufacturing, precision mould making, the sub-assembly of electronic and electrical equipment and other secondary processes. It has plants in Malaysia, China, and Indonesia.

- **Revenue rose 5% qoq** due to higher loading from both Indonesia and the Philippines, while core net losses of RM32.9m underscored the impact of suboptimal customer loadings, cost-down pressures and lingering operational inefficiencies.
- **Short-term pain for long-term gain.** Management highlighted that prevailing industry headwinds, particularly tariff-related pressures, are likely to continue weighing on profitability across the CM/EMS industry at least through FY26. To navigate the challenging operating environment, the group has adopted a strategic decision to partially share the tariff cost burden with customers in exchange for higher order volumes. While this will continue to lead to near-term margin compression, the current low-margin landscape is also driving a natural industry shake-out, accelerating a survival-of-the-fittest phase where weaker players are exiting the market, creating opportunities for market share consolidation by established and resilient players such as VS.
- **New foray – potential rerating driver.** VS continues to attract interest from new MNCs, leveraging Malaysia's entrenched ecosystem. Early-stage discussions are underway, with a medical industry collaboration emerging as the most tangible (double its capacity in JB with VS listed as a strategic partner). PCB assembly has already commenced for this client, but we exclude contributions from forecasts for now.

Sales Assumption

(RMm)	FY24	FY25	FY26F	FY27F
Sales	4,248	3,788	3,635	4,120
Key customer	2,007	1,988	1,925	2,265
Customer Z	400	352	250	275
China	30	30	40	73
Indonesia	350	333	349	349
New key customers	1070	400	300	350
Others	391	686	341	408
Core net margin (%)	4.9%	0.8%	0.2%	2.7%

Source: UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with a lower target price of RM0.34 (from RM0.43),** based on 12x 2027F PE (which is -0.5SD to the 10-year mean).

Earnings Revision/Risk

- After model updates, we recalibrate our FY26/27 earnings forecasts to RM5m/102m respectively to reflect softer loadings and prolonged gestation.

Environmental, Social, Governance (ESG) Updates

Environmental

- VS has been certified with the ISO 14001:2015 Environment Management System for assembly services for mechanical and electrical products.

Social

- VS held an In-House Vaccination Programme in Aug 21 and achieved a 99.8% vaccination record for the entire workforce.
- It is proactively engaging with migrant worker rights specialists and independent auditors to improve the welfare of migrant workers in Malaysia.

Governance

- The company has in place an Anti-Corruption Framework which fulfils the requirements in the Guidelines on Adequate Procedures to Section 17A (5) of the Malaysian Anti-Corruption Commission Act 2009.

Profit & Loss

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Net turnover	3,787.8	3,234.8	3,719.7	4,227.0
EBITDA	222.6	156.6	286.3	321.4
Deprec. & amort.	127.0	129.7	129.8	133.4
EBIT	95.6	26.9	156.5	188.0
Associate contributions	(1.1)	2.5	2.5	2.5
Net interest income/(expense)	(19.5)	(23.5)	(23.5)	(23.5)
Pre-tax profit	75.0	5.8	135.5	167.0
Tax	(42.0)	(0.9)	(35.4)	(43.7)
Minorities	3.7	0.1	1.5	1.8
Net profit	36.7	5.0	101.6	125.1
Net profit (adj.)	51.3	5.0	101.6	125.1

Balance Sheet

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Fixed assets	912.5	932.8	953.0	969.6
Other LT assets	293.0	295.5	298.0	300.4
Cash/ST investment	858.7	868.2	791.4	735.6
Other current assets	1,661.3	1,587.5	1,782.1	2,000.1
Total assets	3,725.5	3,684.0	3,824.5	4,005.8
ST debt	454.3	454.3	454.3	454.3
Other current liabilities	701.9	656.9	727.5	822.8
LT debt	332.9	332.9	332.9	332.9
Other LT liabilities	85.0	85.0	85.0	85.0
Shareholders' equity	2,153.1	2,156.6	2,228.0	2,315.9
Minority interest	(1.7)	(1.8)	(3.3)	(5.1)
Total liabilities & equity	3,725.5	3,684.0	3,824.5	4,005.8

Cash Flow

Year to 31 Jul (RMm)	2025	2026F	2027F	2028F
Operating	530.8	264.3	206.8	234.7
Pre-tax profit	75.0	5.8	135.5	167.0
Tax	(42.0)	(0.9)	(35.4)	(43.7)
Deprec. & amort.	127.0	129.7	129.8	133.4
Associates	1.1	(2.5)	(2.5)	(2.5)
Working capital changes	336.9	108.5	(44.2)	(43.1)
Other operating cashflows	17.2	8.1	8.0	8.0
Investing	(139.1)	(200.0)	(200.0)	(200.0)
Capex (growth)	(188.3)	(150.0)	(150.0)	(150.0)
Investments	31.4	31.4	31.4	31.4
Others	15.8	(81.4)	(81.4)	(81.4)
Financing	(257.2)	(54.8)	(83.6)	(90.6)
Dividend payments	(77.3)	(1.5)	(30.2)	(37.2)
Issue of shares	0.0	0.0	0.0	0.0
Loan repayment	(160.3)	(34.6)	(15.4)	(14.7)
Others/interest paid	(19.6)	(18.7)	(38.0)	(38.7)
Net cash inflow (outflow)	134.5	9.5	(76.8)	(55.9)
Beginning cash & cash equivalent	755.0	858.7	868.2	791.5
Changes due to forex impact	(30.9)	0.0	0.0	0.0
Ending cash & cash equivalent	858.6	868.2	791.4	735.6

Key Metrics

Year to 31 Jul (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	5.9	4.8	7.7	7.6
Pre-tax margin	2.0	0.2	3.6	4.0
Net margin	1.0	0.2	2.7	3.0
ROA	0.9	0.1	2.7	3.2
ROE	1.7	0.2	4.6	5.5
Growth				
Turnover	(10.8)	(14.6)	15.0	13.6
EBITDA	(46.1)	(29.6)	82.8	12.3
Pre-tax profit	(75.8)	(92.3)	2,236.2	23.2
Net profit	(85.1)	(86.4)	1,932.0	23.1
Net profit (adj.)	(75.5)	(90.3)	1,932.0	23.1
EPS	(75.5)	(92.3)	2,500.0	23.1
Leverage				
Debt to total capital	26.8	26.8	26.1	25.4
Debt to equity	36.6	36.5	35.3	34.0
Net debt/(cash) to equity	(3.3)	(3.8)	(0.2)	2.2
Interest cover	11.4	6.7	12.2	13.7

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